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UNCLAS HARARE 002302

SIPDIS

SENSITIVE

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USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [ZI](#)
SUBJECT: Gono will speak on Dec 17

Ref: Harare 2284

1. (U) Summary: Zimbabwe's business community eagerly awaits incoming Reserve Bank (RBZ) Governor Gideon Gono's first policy statement, now scheduled for December 17. Most critical is where Gono comes down on currency markets. End Summary.

2. (U) After Finance Minister Herbert Murerwa's vacuous budget speech (ref), the GOZ's traditional medium for economic strategy, policymaking authority is shifting to the new RBZ chief. While Zimbabwe faces numerous policy crossroads, none is more pressing in the economic sphere than the exchange rate. An overvalued official rate (7-times stronger than the market rate) coupled with a GOZ clampdown on parallel trading are: a) depressing Zimbabwe's export sector, b) driving parastatals ever deeper into debt (by compelling them to charge unrealistically low prices pegged to the official exchange for everything from international phone calls to electricity) and c) making it increasingly risky for firms to import necessary inputs (especially fuel).

3. (SBU) The GOZ can solve its overvalued currency problem either by devaluing or officially sanctioning the parallel market. Either course of action offers few downsides. However, the exchange rate has become a line-in-the-sand issue for many GOZ hardliners. The Embassy has learned that Murerwa's draft contained an official devaluation from Z\$824 to 3,800:US\$1 (market rate is Z\$5900:US\$1) until November 18, two days before the speech. At that point, hardliners convinced Mugabe to strike it. These advisers continue to believe the GOZ can police the parallel market out of existence. They propose the RBZ impose new controls on export processing zones, tourism operators, foreign currency accounts and remissions.

Comment

4. (SBU) Without doubt, Gono is in the hot seat. If nothing is done, the 7-fold disparity between official and parallel exchange rates will soon widen, causing businesses to further cut operations or stray into illegal activity.

Sullivan